



With financial support of the Prevention of and Fight against Crime Programme  
European Commission – Directorate-General Home Affairs

# **EU Project FINOCA**

## **Financing of Organised Crime Activities**

### **Cocaine Trafficking in the EU: Commonalities in financing**

Final Conference, 13<sup>nd</sup> March 2015, The Hague



UNIVERSITY  
OF TRENTO - Italy  
Faculty of Law

## *The study within the EU Project FINOCA - Financing of Organised Crime Activities*

### **Survey**

Data gathered through experts (law enforcement, prosecutors, custom and tax administration officers) in 27 EU countries

Questionnaires and follow-up interviews

### **Case studies (cocaine trafficking)**

Local researchers and data gathered through experts (law enforcement, prosecutors, custom and tax administration officers) and criminal entrepreneurs

7 EU countries: Italy, UK, Bulgaria, Estonia, Spain, France, Greece

In-depth (telephone/face to face) interviews, focus groups

## *Extent of cocaine trafficking in the EU*

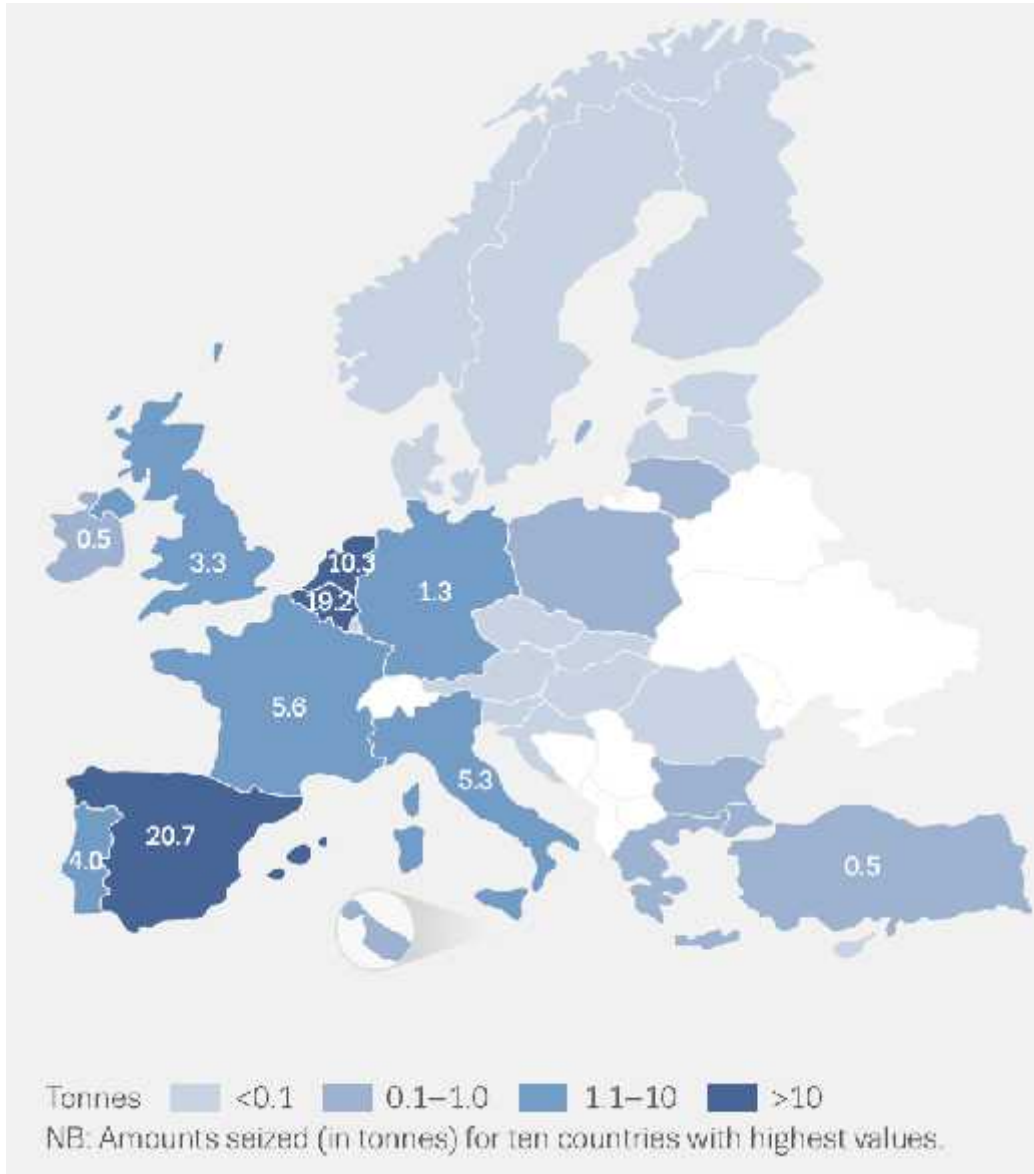
### **Consumption**

More recent years, stabilisation in Central and Western Europe (major consumer regions together with North America), (UNODC, 2013)

Since 2012, contained in these areas, but expanded in new markets (Africa, Asia, Oceania, Latin America, Caribbean, Eastern and South Eastern Europe), (UNODC, 2014)

### **Significant differences among EU countries of prevalence in use (EMCDDA, 2014)**

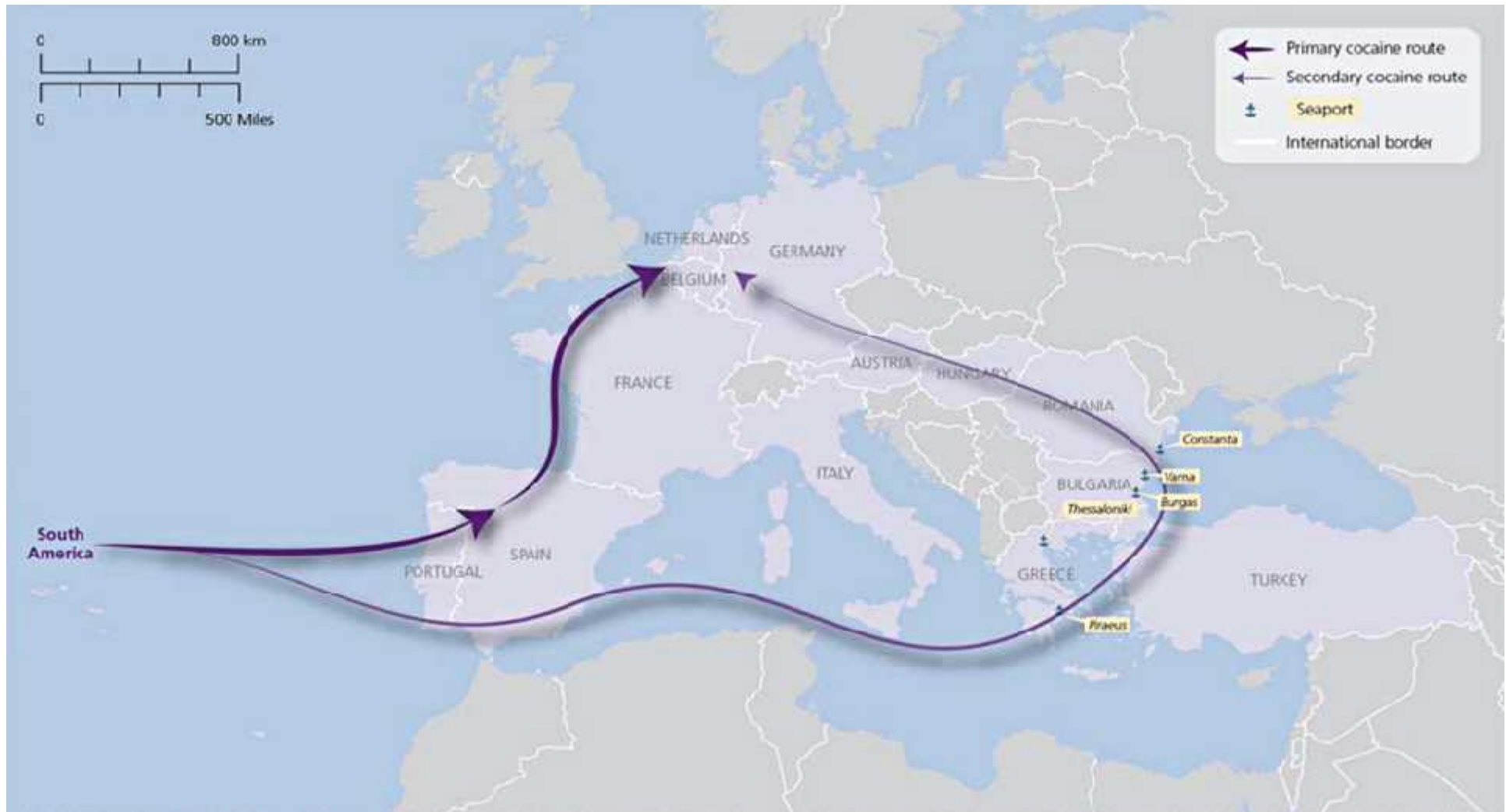
- Life-time (population aged 15-64), higher prevalence in UK, Spain, Ireland, Denmark, the Netherlands, Italy
- Last year (population aged 15-34), reduction in Denmark, Italy, Spain, UK (after a peak in 2008)/increase in France and Sweden (from 2000)



## Seizures in EU: countries with highest volumes

Traditional entry points: Portugal, Spain, the Netherlands, Belgium (places of further distribution)

Black sea and Balkans: areas for the diversification of cocaine trafficking routes



UNODC, 2014

## *3 main recurrent key concepts in financing of cocaine trafficking (IT, UK, BG,EE, ES, FR, GR)*

### **1. Contacts**

Legal and illegal channels (individuals) to facilitate (finance) cocaine trafficking operations and the reinvestment and laundering of profits

### **2. Trust**

Settlement of and methods for cocaine payments, organisation of cocaine importation, reinvestment and laundering of profits

### **3. Illegal and legal capital**

Starting/maintaining cocaine trafficking operations, payment of individuals involved, increasing profits

*Good and trusted contacts allow almost anyone to enter the cocaine business*

## **Interplay of different actors within cocaine trafficking**

### OCGs (high/middle segments)

- Fluid, horizontal and loose criminal networks (adaptability to business opportunities and circumstances)
- Ethnic, family, kinship, friendship ties (guarantee of trust)
- Direct contacts (trust) with suppliers in producing countries or via brokers (trusted individuals with networking skills)
- Joint ventures among different OCGs (trusted business relationships), sharing risks and costs

### Minor groups and solo entrepreneurs (low segments)

- Small (ethnic) criminal organisations
- Legal entrepreneurs (e.g. facing economic crisis)
- Other persons (retired, workers, etc.)
- Contacts with suppliers via acquaintances/family members

*Social capital (contacts and trust) facilitate entering the cocaine business*

## **Sources of financing to enter and sustain cocaine trafficking operations**

High/middle segments (OCGs) – financial joint ventures

- Other criminal activities: extortions, loansharking, prostitution, smuggling of migrants, robberies, thefts
- Cocaine trafficking
- Own legal activities (money reinvested and money re-used)
- Legal entrepreneurs for a share of profits

Low segments (minor groups/solo entrepreneurs)

- Social capital more important than the availability of money
- Cocaine trafficking (criminal careers)
- (Black) money from own legal activities (legal entrepreneurs)
- Personal earnings (retired, workers, etc.)



## *Trust is fundamental for settlement of cocaine payments*

### **Modes for cocaine payments**

- Cash-up front: preferred way to settle cocaine payments – high/middle and low segments (cash as guarantee of the deal)
- Advanced payments: 50% rule, covering transportation expenses (importation) and assuring loyalty of buyers (role of trust for the amount anticipated)
- Revolving credit: payments after cocaine selling (trust and well-established relationships needed)
- Multistep payments: different stages of purchasing, used by high segments, (first/second payment guarantee of the deals and third payment for success)

If cocaine trafficking operations are not successful (police seizure, stealing from competitors) trust allow for no retaliation, no exiting from the market

## Methods for cocaine payments

- Cash transported by plane, vehicles (role of trusted money collectors and/or deliverers)/intermediaries in transit/destination countries
- Legal transfers of money: bank accounts (off-shore), compliant (or not) finance/holding companies performing legal fictitious transactions, money transfer services
- Compensation-type money transfer: Hawala, use of papers, networks of intermediaries
- Other methods of payment: in-kind, exchange of valuable goods

## *Social capital and trust as key assets to remain in cocaine business*

### **Access to capital in critical moments**

#### High/middle segments (OCGs)

- Cash preserved into bank accounts (off-shore)/home-deposits, “rainy day” funds
- Trusted individuals to continue the cocaine business
- Revolving credit arrangements
- Financial support to affiliates/key employees and reintegration into the cocaine business

#### Low segments (minor groups/solo entrepreneurs)

- More need of social capital
- Revolving credit arrangements
- Committing minor crimes (thefts, robberies)

## *Illegal capital finance cocaine trafficking operations*

### **Costs (trafficking operations and payment of members/employees)**











Variable costs of cocaine trafficking operations:

- Price of cocaine (purity and quantity acquired)
- Place of purchase (producing/transit/EU countries)
- Logistics (method of transport, number of individuals involved)
- Risks (side of buyers or suppliers)

## Examples of costs for transportation/employees

- *Transshipment services*: €10.000 to set up an import-export companies, \$1,500,000 to create a maritime company, 30% of the value of the load (EU price) to compliant entrepreneurs
- *Drug brokers*: 3-4% up to 10% of the value of the load (EU price)
- *Drug couriers*: €600-€1.300 per job to €4.000-€6000 per kilo transported within EU
- *Drug mules*: €2.000-€3.000 per trip
- *Money counters*: €1.000 (salary and expenses per trip)
- *Bribes to officials*: €1.000 up to €5.000 euros in producing countries/€10.000 destination countries (EU)
- *Fees for protection*: fees to other OCGs, share of profits of the deal at 10%

## Costs for running a cocaine market: Scampia, Afragola (Naples) and Bari

Chemist for cocaine cutting	Warehouse keeper	Armed sentinel	Money collector ("capobastone")	Street dealer (city of Naples)	Street dealer (city of Bari)
					
					
10.000€	7.500€	6.000€	10.000€ - 15.000€	2.000€ - 3.000€	4.500€ - 6.000€

Authors elaboration on collected data, L'Espresso 2014 (IT)

## *Illegal capital as a source for cocaine trafficking and legal investments*

### **Profits**

- Depend on availability of cocaine in a given market, retail prices, quantity acquired (scale of the operations) and level of purity, risks taken/encountered
- High mark-ups (differences in purchase and selling prices/cutting cocaine)
- Mark-ups consistent at the higher levels (importation/wholesale) while decreasing along the supply chain

### **Reinvestment**

- Financing of cocaine trafficking operations, other criminal activities
- Remunerating “everyone in the business”
- Acquisition of goods/properties (luxury items, real estates, legitimate companies, commercial businesses)

## *Contacts* crucial for legal investments

### Methods for money laundering and reinvestment

- Straw men and commercial agents/lawyers to gain different properties (hotels, restaurants, shops, pubs, etc.) or to create investment trusts/(dummy) import-export companies
- Legal entrepreneurs (e.g. in economic crisis) in taking possession of legal companies, insert members of OGCs in boards of directors, participating to share investments (role of loansharking)
- Bankers (compliant directors/off-shore) in allowing dirty money to enter easily the bank system
- Bankers and stock brokers for bonds investments (professional for online operations)
- Owners of Western Union services/individuals for money transfers
- Casinos/online gambling





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